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CIRCULAR

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FINDINGS OF THE VALUE-FOR-MONEY STUDY AND THE GOOD PRACTICE GUIDE ON EFFECTIVE FACILITIES MANAGEMENT

Cheylesmore House
Quinton Road
Coventry CV1 2WT

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Summary _____ Main findings of the value-for-money study and the good practice guide on effective facilities management

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Enquiries:
Philip Head
01203 863119
Education and institutions

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FINDINGS OF THE VALUE-FOR-MONEY STUDY AND THE GOOD PRACTICE GUIDE ON EFFECTIVE FACILITIES MANAGEMENT

INTRODUCTION

1 This circular summarises (at annex A) the findings of the value-for-money study and good practice guide on contracting out facilities management and estate-related services in colleges. The study and accompanying good practice guide, *Effective Facilities Management*, were commissioned by the Council in association with the National Audit Office (NAO). The members of the steering group who assisted in the study and in the preparation of the good practice guide are listed at annex B.

BACKGROUND

2 The Council has invited the NAO to take part in value-for-money studies in the sector, with the aim of publishing good practice guides for some of the key activities undertaken by colleges. The first subjects to be addressed were estate management, procurement, facilities management and marketing.

3 *Estate Management in Further Education Colleges: A Good Practice Guide* was distributed to colleges last year under the cover of Circular 96/04. *Procurement: A Good Practice Guide* was recently published and circulated in June 1997. *Marketing: A Good Practice Guide* is forthcoming. A further study on the appointment and the use of consultants and providers of professional services is currently under commission.

4 Following competitive tender, the Council appointed the Department of Construction Management and Engineering at the University of Reading to carry out a value-for money-study on contracting out facilities management and estate-related services, and to prepare a good practice guide. The study was based on a representative sample of 25 sector colleges which were visited. In addition, the University issued a detailed questionnaire to each sector college to help ensure that the study findings were representative of practice in the sector as a whole. Good practice in other property sectors was also taken into account.

5 The estate-related services to which the study applied included:

- routine and day-to-day maintenance of buildings and grounds
- cleaning of buildings, equipment and grounds
- security of buildings and sites, both electronic and physical, and the provision of reception services
- purchase of utilities — electricity, water, gas, oil, telecommunications facilities
- management and, where appropriate, purchase of central services — heating, lighting, water/drainage, ventilation/air conditioning, switchboard and telecommunications.

6 The following areas were selected for investigation:

- current procurement and management practices
- identification of those aspects of services which may be considered for contracting with external suppliers
- a regular comparison of the relevant costs and benefits obtained by either providing services in house or by contracting with external suppliers
- the preparation of appropriate tender and other specifications and the definition of both the extent and quality of service required from contractors
- procurement procedures, including the methods of selecting tender lists and the preparation of tender and contract documentation and the management of the supervision of the various contracts
- tender criteria for selecting contractors
- the use of facilities management consultants or contractors to provide and procure either the management, or the direct implementation, of all or some of the areas listed above
- financial and budgetary control in relation to the areas of estate-related activities listed in paragraph 5
- establishing and maintaining control of thresholds for the provision of these services.

7 The conduct of the study was overseen by a steering group comprising representatives of colleges, the NAO and the Council. The findings of the study were noted by the Council at its meeting on 27 February 1997.

FINDINGS

- 8 The principal findings of the study were that:
- colleges need to develop their knowledge in order to improve their facilities to maximum effect. Most are making serious attempts to bring order and consistency to the management of their services and facilities
 - many colleges have yet to elevate facilities management to a strategic level of importance
 - colleges must be 'informed clients' when managing the contracting-out of estate-related services and facilities, and need to employ staff with experience of managing services and facilities to a degree commensurate with the size and demands of their colleges
 - service level agreements should be applied consistently to all services, regardless of whether they are contracted out or retained in house
 - college space requirements need to be better articulated so that space is utilised and serviced to appropriate levels. Colleges need to integrate the allocation of costs for providing support services to internal departments with their overall financial management
 - comprehensive information on the costs of providing estate-related services is largely unavailable in colleges, and the benchmarking of such information could be used to improve this.

GOOD PRACTICE GUIDE

9 The accompanying guide recommends procedures and practices which address the findings in the study. The guide is commended to all concerned with facilities management in colleges, including college governors, senior management and estate managers. Each chapter of the guide contains free-standing guidance on particular study

areas. The guide is not intended to be prescriptive and recommends an approach to facilities management activities to assist colleges. It also complements the Council's earlier publications:

- *Guidance on Estate Management* (issued under cover of Circular 93/35)
- *Estate Management in Further Education Colleges: A Good Practice Guide* (issued under cover of Circular 96/04)
- *Accommodation Strategies: Guidance for Colleges* (issued as a supplement to Circular 97/19).

10 A summary of the main issues discussed in the good practice guide is attached as annex A to this circular. The appendix to annex A contains a summary of the risks and opportunities faced by colleges in addressing their FM requirements, and includes chapter references to the good practice guide.

11 Two copies of the guide are being sent with this circular to each sector college. One further copy is being sent to each college library. Additional copies may be obtained from The Stationery Office, price £16.95, including postage.



SUMMARY OF EFFECTIVE FACILITIES MANAGEMENT: A GOOD PRACTICE GUIDE

What is Facilities Management?

1 Facilities management (FM) is defined as ‘an integrated approach to operating, maintaining, improving and adapting the buildings of an organisation in order to create an environment that strongly supports the primary objectives of that organisation’. In further education, this is about providing a high-quality environment for learning, teaching and training on a cost-effective and value-for-money basis.

What does FM Mean in Practice?

2 Colleges should consider a co-ordinated approach to diverse activities in support of their overall strategic plan objectives. These include:

- property management
- financial management
- change management
- human resources management
- health and safety and contract management
- building maintenance
- domestic services, such as cleaning and security
- the supply of utilities, for example, gas, electricity, water, telecommunications.

3 Understanding the college’s operational and financial requirements is key to effective FM which should in all cases be measured in terms of providing value for money. FM objectives and goals should, as a minimum:

- set challenging targets to ensure that the operation of a college’s assets is highly cost effective
- provide competitive advantage to the core business of the college
- enhance the college culture and image
- enable future changes in the use of space
- deliver effective and responsive services.

What Approach should be Taken?

4 The production of a successful strategy for FM can be divided into three stages:

- a. *analysis* — assembling all relevant facts including the college’s objectives, needs and policies, review of resources, processes, systems and physical assets, and their attributes in terms of space, function and utilisation;
- b. *solution* — assembling the criteria for judging options, evaluating these against the objectives of the college and developing the FM strategy;
- c. *implementation* — establishing a workable plan which incorporates the key elements of procurement, training and communication, and which aims to deliver *value for money* and *customer satisfaction*.

5 On completion, implementation of the FM strategy should be part of the key objectives of a college’s strategic plan and accommodation strategy. The FM strategy document should incorporate:

- financial objectives
- goals and critical success factors (in terms of time, cost and quality objectives)
- targets for potential efficiency gains and quality improvements
- customer focus strategy
- technical strategy
- in-house versus contracting-out strategy
- procurement strategy
- a human resource plan for FM activities
- business processes
- IT strategy.

6 Quality of service or performance is a critical factor and the relationship between quality and cost has to be properly understood if *value for money* is to be achieved. Cost reduction may be taken to indicate improved value for money, but quality and/or performance should also be taken into account. *FM services should represent best value for money for the college irrespective of the source of those services* — see the appendix to this annex for a summary of the risks faced in contracting out estate-related services and FM and the opportunities that may arise from addressing those risks.

Choosing between Contracted-out and In-house Services

7 Both *hard* and *soft* measures and a comparison of costs with the required quality standards should be used to help decide whether or not to contract out FM provision. Consideration should also be given to both the direct and indirect costs of service provision so that a complete financial picture can be gained, with comparisons made on a like-for-like basis. Factors affecting the choice of in-house or contracted-out provision may change, and so the route by which services are procured should be reviewed at suitable intervals. In most cases, an annual review would be appropriate depending on the size and complexity of contracts.

8 Significant changes in the extent to which FM services are contracted out will impact on the number of permanently employed staff and the functions they perform. Roles and skills should be defined for the services to be provided and it is important that the purchaser and provider of services be separately identified: this should apply to both contracted-out and in-house service provision.

9 Changes in the level of contracting out will impact on the roles and responsibilities of those involved, requiring changes to human resource policy and procedures. The college's position on the *Transfer of Undertakings (Protection and Employment) Regulations 1981* (TUPE) should, therefore, be made clear if the workforce is to have confidence in its management.

10 Colleges preparing a FM strategy should begin by establishing the current position on services provision — from whom they are obtained and upon what basis. The extent of knowledge and skills which are to be found within the college must also be established. Consultation with all stakeholders is essential. Beyond this, the process is one of following a well-defined approach and complying with relevant legislation.

11 Performance monitoring will apply equally to in-house provision as it does to contracted-out services. A process of continual improvement should be implemented to ensure that productivity and standards of quality and performance are raised.

Service Specifications and Service Level Agreements

12 Defining the scope of a specification for service is crucial to successful FM whether or not the service is contracted out. An inadequate definition is likely to lead to problems in the management of the service, with higher supervision costs and a lowering of quality standards and, hence customer satisfaction.

13 Service specifications and service level agreements (SLAs) are tools for managing the quality, performance and value of services procured. A service specification is a document that quantifies the minimum service levels that are acceptable if the customer's requirements are to be met. It provides a benchmark against which to assess the level of services that are delivered to the customer.

14 An SLA is a commitment by the service provider to the customer to deliver an agreed level of service which should apply irrespective of whether the service is contracted out or retained in house. Service specifications and SLAs should not be regarded as absolute statements of service requirements, but as statements that can be updated as circumstances and customer's requirements change.

15 Performance monitoring is an integral part of the process and involves reconciling the level of service delivered to the customer against agreed standards and targets set out in the service specification and SLAs. Service providers should be involved in updating and improving service specifications and SLAs in order to make best use of their experience in providing the service.

Health and Safety Issues

16 Compliance with health and safety legislation applies to everybody in the workplace. A policy statement should be produced by the college and be regularly communicated to all stakeholders. This should be backed up by proper administration and management systems to implement the policy and measure its effectiveness. A experienced manager should be appointed to assist in implementing and complying with health and safety legislation.

What Kinds of Service Providers are There?

17 There are essentially three types of service provision in the market-place:

- managing agent
- managing contractor
- total FM provider.

18 All approaches will have cost implications for colleges in managing and administering contracts. The costs for single contracts may be lower than where several contracts are involved. Colleges need to weigh the risks and costs of the different approaches and any variations to them. Total FM will not absolve the college from managing the contract and the interface between the contractor and customer. The decision on the type of FM service to provide should be related to the identified needs of the college.

Getting the Best out of Service Providers and Suppliers

19 All service providers and suppliers have to be managed. Buying a service without concern for the subsequent relationship may ignore a useful source of skill and expertise. Co-operative relationships with suppliers should provide greater confidence in the service or supply provision without necessarily being uncompetitive or compromising on quality or performance. Continual improvement is a necessary part of the approach and includes measurable targets. Partnering is the most common form of co-operative relationship for managing suppliers and contractors, although it is not an answer for all needs and situations. It can be an acceptable alternative to competitive tendering provided it too has a competitive element.

Financial and Contract Management

20 Service providers should be reimbursed in line with their performance against the service specification and the SLA. In turn, service levels should be monitored in relation to stakeholders' changing requirements. Service providers should be given the incentives to seek continual improvement and penalised for under-performing. Contract costs should be monitored against both the budget and contract sum regularly. This will mean that the level of audit applied to contracts should be appropriate to the value and complexity of the contract. Changes should be agreed in advance of their implementation with an estimate of cost ascertained in accordance with contract rates and prices.

Measuring Performance in FM

21 Benchmarking can be used to provide useful indicators of how the college is performing. It can work successfully between colleges that would otherwise regard themselves as competitors. Gains from benchmarking with other colleges may outweigh perceived disadvantages.

22 Benchmarking provides the basis for continual improvement and to work successfully it has to be stakeholder driven, forward-looking, participative and focused on quality and performance. Benchmarking studies are relatively easy to undertake and do not require extensive resourcing.

23 Best FM practice outside the college sector can be used to provide useful insights into ways of improving performance. Even so, the recent value-for-money study suggested that best performance in the sector has been found to be close to best practice. This suggests that all colleges can aspire for excellence in their FM.

Conclusion

24 A rigorous approach to FM can be an important part of running a successful college. The quality of the services provided by colleges to their customers can be improved by elevating FM to a strategic level, whilst paying attention to the effective provision of services at the operational level. For any approach to be successful, there has to be a thorough appraisal of needs and means, followed by a careful procedure of evaluation and control of services' provision. At all times, it is necessary to be able to demonstrate that a particular policy, whether it is to contract out or retain a service in house, is providing best value for money.

RISKS AND OPPORTUNITIES FACED BY COLLEGES IN ADDRESSING THEIR FM REQUIREMENTS

(References in parentheses refer to *Effective Facilities Management: A Good Practice Guide*, TSO, 1997)

Risks

- 1 Inadequately resourced or inexperienced client function (chapters 1, 2, 11, 13 and annex A).
- 2 Inadequate planning of the implementation — no analysis of implementation or allocation of related responsibilities (chapters 2, 3, 4, 5, 6, 11 and annex C).
- 3 Misapplication of TUPE (chapter 4).
- 4 Poor relationship between contractor and the contract manager (especially if this person was once involved with preparing an in-house bid) (chapters 5 and 11).
- 5 Inadequate split between purchaser and provider staff, resulting in conflicts of interest when dealing with in-house bids (chapters 5 and 6).
- 6 Unclear or imprecise roles, responsibilities and targets for effective teamworking (chapters 3, 4, 5, 6 and 11).
- 7 Possible loss of control over the facilities management function and ownership of, and access to, documents and knowledge (chapter 5).
- 8 Lack of standard forms of facilities management contracts or inadequate conditions of contract (chapter 5).
- 9 Inappropriate allocation of risks and rewards between college and service providers (chapters 5, 6 and 14).
- 10 Inadequate definition of the scope and content of services (chapter 7).
- 11 Lack of consideration of all stakeholders in the facilities management sphere (chapter 7).
- 12 Specifications are over-prescriptive and/or concentrate on procedures not outputs (chapter 7).
- 13 Stakeholders' 'gold plating' their requirements (chapter 7).

- 14 Poorly controlled changes to user requirements (chapters 7 and 11).
- 15 Excessive monitoring of contractor performance (chapter 7).
- 16 Absence of, or poor system for, providing incentives for performance (chapter 7).
- 17 Contract too inflexible to handle changes in user requirements during the contract and work outside specification (chapter 7).
- 18 Failure to take account of relevant health and safety legislation at the correct time, leading to excessive cost later (chapter 8).
- 19 Redundancy in the supply chain where cost is added without necessarily adding value (chapter 10).
- 20 Poor bundling or grouping of activities to be contracted out (chapter 9).
- 21 Absence of shared ownership of outcomes (chapter 10).
- 22 Poor cashflow position for colleges and service providers (chapter 11).
- 23 Financial failure of chosen service provider during contract period (chapter 11).
- 24 Absence of benchmarks of cost and quality against which to measure performance and improvement (chapter 12).
- 25 Lack of education and training facilities in facilities management (chapter 13).
- 26 Fraud or irregularities in the award and management of contracts (annex D).

Opportunities

- 1 Enhancing client capability and quality of provision, and proper assessment of requirements for the scope and content of services (chapters 3 and 4).
- 2 Identification and allocation of risks on a rational basis to help clarify relationships between contractors and facilities managers (chapters 3, 5 and 9).
- 3 Proper separation of duties between purchasers and providers (chapters 3, 5 and 6).
- 4 Clear responsibilities and targets for effective teamworking (chapter 3).
- 5 Proper contract documentation with appropriate conditions of contract for both in-house

and contracted-out services (chapters 7, 10 and annexes G and H).

6 Proper allocation of risks and rewards (chapter 3 and annex E).

7 Improved response to customer and market requirements (chapters 2 and 3).

8 Improved performance with proper incentivisation (chapters 5, 6, 10 and 11).

9 Health and safety legislation incorporated into facilities management policies at the appropriate time (chapter 8).

10 Shared ownership of outcomes (chapters 5 and 6).

11 Proper monitoring of contract performance (chapters 5, 6 and 11).

12 Improved cashflow forecasting and budgeting (chapters 2 and 3).

13 Opportunity to build up cost and quality benchmarks against which to measure performance and improvements (chapter 12).

14 Properly focused education and training for in-house staff in facilities management matters (chapters 4 and 6).

15 Proper assessment of activities to be grouped or bundled for contracting out (chapters 6 and 7).

16 Efficiency gains enabling resources to be released for the improvement or expansion of curriculum provision (chapter 2).

17 Obtaining better value for money (all chapters).

STEERING GROUP MEMBERSHIP

The Council would like to thank the following people who served on the steering group for the value-for-money study and assisted in the preparation of the good practice guide.

Margaret Davey, OBE Literary Institute	Principal, The City
Richard Gorringe College	Chief executive, Bedford
Julie Hall manager, Taunton's College	Administrations

Rodney Ireland	Former director of premises and development, South Thames College
John Kickham	Property portfolio manager, IBM UK Limited
David Nixon	Vice-principal, Regent College
Tony Pitcher	Principal, South East Essex College of Arts and Technology
Michael Reeves	Director, Wales, Employment and Further Education, The National Audit Office
Howard Revill	Senior auditor, The National Audit Office
Bill Walker	Assistant chief executive, St Helens College

Observers:

John Harper	Head of estate management, The Further Education Funding Council for Wales
John Rushforth	Chief auditor, The Higher Education Funding Council for England

